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Glas Cymru Cyfyngedig

Preliminary results

for the year ending 31 March 2012

Foreword to the Preliminary Results Announcement

Basis of preparation

The following announcement of preliminary results includes information which has been extracted direct from the audited Glas Cymru Cyfyngedig Annual Report and Accounts for the year ended 31 March 2012.

The independent Auditor's Report set out on pages 16 and 17 refers to the Glas Cymru Cyfyngedig Annual Report and Accounts as a whole. It therefore makes reference to the Directors' Report, the Corporate Governance Statement and the 2012 Remuneration Report, which are excluded from this Preliminary Announcement.

This report contains certain forward-looking statements with respect to the future business prospects and strategies of the Glas Cymru Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

Chairman's Statement

Our ambition is to deliver the best possible outcomes for our customers, supplying drinking water of the highest quality and safeguarding the environment that we look after on behalf of the communities we serve. We also hope to show that the unique business model we have established for the water industry in our region is working for our customers. I am pleased to report that we have made significant progress in the year towards these objectives.

Glas Cymru is a private company (limited by guarantee, not shares) and was formed in 2001 to acquire the business of Dŵr Cymru Welsh Water, the regulated water and sewerage company that serves much of Wales, Herefordshire and Deeside. Instead of shareholders we have independent Members who do not receive dividends and whose only interest is the selfless one of overseeing the performance of Dŵr Cymru against the objectives set for the business and holding the Board to account. Glas Cymru's business is limited to that of owning, financing and managing Dŵr Cymru in the interests of Dŵr Cymru's customers, both today's and future generations.

We finance Dŵr Cymru's extensive network of long lived assets and continuing large capital investment programme through long term, low risk bonds and retained financial reserves. Financing efficiency is one key advantage that has been secured by the Glas Cymru business model. Our financial reserves now stand at £1.5 billion, having grown ten-fold since we acquired Dŵr Cymru in 2001. With our financial gearing ratio (net borrowings expressed as a percentage of our regulated capital value) now down to 65% - from 93% in 2001 - we currently have the best credit ratings in the UK utilities sector.

This strong financial position has allowed us to do much more for our customers than would otherwise have been possible. In the past we paid customer dividends totalling £150 million to limit the impact of rising customer bills. But with Dŵr Cymru's household customer bills projected to fall by 7% on average in real terms between 2010 and 2015 the Board has decided that our customers' interests are best served by accelerating future planned investment to improve the reliability and quality of the essential public service our customers rely on, in particular safeguarding the quality and reliability of drinking water services.

The Glas Cymru model allows us to accelerate £100 million of investment - taking the total investment spend in the current five year regulatory period 2010-2015 to £1.5 billion, equivalent to more than £1,000 for every household customer. This investment will, for instance, see 22 water treatment works undergo major renewal and upgrade as part of our "Go to Green" programme helping to ensure that the current very high quality of drinking water is maintained for future generations. At a time when many companies are cutting back on investment, our accelerated programme is employing some 10% of the construction sector in our region, supporting some 1,500 jobs with more than 50% of total spend going to local companies in our supply chain.

Our first priority is to our customers and to looking after our network of assets for future generations, a network with a replacement value of over £25 billion. We have been able to accelerate investment and do more for our customers while bills are falling in real terms. This both chimes with and reinforces Dŵr Cymru's customer first culture. We are improving the experience our customers receive when they deal with us. Customer satisfaction reached a record 90% and we ranked amongst the best companies on Ofwat's industry league table for customer satisfaction. Customer complaints have more than halved and have never been lower. Complimentary letters from customers have risen three fold.

Especially encouraging have been the results from two independent surveys of our largest business customers which showed that overall satisfaction with our service now stands at 89%. And at a time when household incomes are under great pressure, particularly in our region, we are pleased that we are doing more than any other water company to help, with some 44,000 of our least well off customers benefitting from one of our social tariffs or our Customer Assistance Fund.

While the Board is pleased with this progress, we have set targets which demand that we achieve still higher standards and we will not be content until Dŵr Cymru leads the industry on the measures that matter for our customers and for the environment we look after.

Our ability to deliver the best possible outcomes for our customers - and in particular to accelerate capital investment while customer bills are falling in real terms - depends crucially on a continuing stable regulatory environment. We have been able to raise bond finance for capital investment for up to 50 years at real interest rates of below 2% because we can convince long term investors that our Company and our industry is low risk. At a time of great uncertainty - when investors are looking for a “safe haven” – maintaining the attractiveness of the water sector as a place to invest has never been more important. Changes to the regulation of our industry must not introduce unnecessary risk and uncertainty and we are reassured that both the UK and Welsh Governments are committed to making only those changes that will produce better outcomes for customers.

Tony Hobson will be stepping down from the Board at the Company’s Annual General Meeting and I would like to put on record our thanks for all that he has done for the Company and the immense contribution he has made since he joined the Board as one of the founder Directors in 2001. Without Tony and the other founder Directors we would not be in the strong position that we are today. I am delighted to welcome John Warren to the Board who has joined us as a Non-executive Director and to succeed Tony as Chairman of our Audit Committee. John brings an extensive and diverse financial and business record which will be invaluable as we continue to strive to make Dŵr Cymru the leading water company in the sector.

Finally and on behalf of the Board, can I also put on record our sincere thanks to the entire 2,000 strong team at Dŵr Cymru. We have instituted wholesale change to our enterprise over the last two years in particular and throughout the commitment and indeed enthusiasm of everyone in the Dŵr Cymru team has been steadfast.

Robert Ayling
Chairman
13 June 2012

Performance Review

We made real progress last year on most of the measures that matter for our customers and for the environment that we look after on behalf of all the communities we serve. We achieved a best ever performance on some and where performance fell short last year we have implemented turnaround plans, backed by investment, to secure the required improvements.

The regulated water industry is particularly measureable which allows the Board to set targets for the business that are based on sector benchmarks and to judge where we stand compared with the best performers in the sector. We use a number of the key measures to make up our Performance Scorecard against which – alongside the achievement of cost efficiency targets - variable pay for every member of staff is calculated. Last year we achieved or beat the targets set by the Board for 15 of the 18 measures on our Performance Scorecard. This represents the best overall performance achieved by the Company in recent years.

	2010/11	2011/12	At or better than target
Safe Drinking Water			
Bacti compliance at WTW	99.95%	99.96%	✔
Reservoir Integrity Index	99.97%	99.97%	✔
Compliance with standard for iron at tap	99.56%	99.8%	✔
Mean Zonal Compliance	99.97%	99.96%	✔
Process Control Index	100%	99.96%	✔
Disinfection Index	99.88%	99.97%	✔
Water Quality Events - Level 3 and above	17	6	✔
Safe Sanitation			
Sewer flooding - Other Causes	136	156	✘
Sewer flooding - Hydraulic Overload	47	30	✔
Protecting the Environment			
Leakage (Ml/d)	199	186	✔
Number of serious pollution incidents	8	4	✔
Total number of pollution incidents	260	246	✔
Population equivalent - WwTWs compliant with consent	99.96%	99.72%*	✘
Percentage of WwTWs compliant with numeric consent	97.14%	96.27%*	✘
Customer Service			
Number of customers - loss of supply > 6 hours	3,759	116	✔
Number of written complaints (stage 1 and stage 2.)	11,033	4,660	✔
Number of unwanted telephone calls	432,101	204,895	✔
Customer Satisfaction (SIM Qualitative)	4.26	4.48	✔

**In addition, insufficient samples were taken at four WwTWs to demonstrate compliance.*

Protecting public health

High quality drinking water

Supplying safe drinking water at all times is our most important responsibility and this means that our tap water must be free from harmful chemicals and bacteria and have a good taste.

Over the course of a year some 300,000 water tests are taken and analysed under regulations monitored by the Drinking Water Inspectorate ("DWI"). In 2011 the high quality of the water we supply was maintained with 99.96% of samples taken and analysed meeting drinking water quality standards at customer taps. We also achieved our targets on four of the other five indices used by the DWI to measure water quality compliance at each point on the water supply system.

Customer complaints and contacts about discoloured water were well down once again and are a third lower than five years ago. Iron is the main cause of discolouration and our compliance with the water quality standard for iron in 2011 was 99.80% which is an improvement on the previous year when compliance was 99.56%. However, notwithstanding the water mains renewal programme of the last ten years we still have more than 6,500km of unlined iron mains which can cause discoloured water and managing and mitigating this risk is a major challenge for us.

Of the 22 events affecting water quality we notified to the DWI during 2011, just six were classified by the DWI as significant. This continues the very marked improvement on this key measure over recent years; in 2009 21, and in 2010 17, of the events we notified were classified by DWI as significant.

Our accelerated investment programme to improve the reliability of our water supply network - based on our Drinking Water Safety Plans - continues to make good progress and last year we completed schemes at Alwen (Conwy), Cilfor (Gwynedd), Capel Curig (Conwy) and Penycefn (Dolgellau) and we are currently on sites including Llyswen (Powys), Bala (Gwynedd), and Sluvad (Torfaen). Our £120 million "Go to Green" programme to rebuild, refurbish or upgrade 22 water treatment works across Wales has been agreed and will be delivered over the coming three years.

The Water Health Partnership for Wales, established by Dŵr Cymru in 2006, continues to be an important forum in which health and water professionals from across Wales can share learning and improve inter-agency knowledge of public health and drinking water quality issues. We also continue to host events where we work with landowners and others to identify and agree on ways in which we can work together to manage catchments and protect raw water quality.

Reliable sanitation

As important for public health is reliable sanitation. Following the transfer of private sewers to the regulated water and sewerage companies in England and Wales in October last year we are now responsible for maintaining more than 30,000 km of sewers, potentially doubling the length of our sewer network. Much of this sewer network is old and in poor condition and one of our biggest challenges is to minimise the impact of any blockages and other problems on the network. Prior to the transfer of private sewers, we typically dealt with just over 1,000 blockages every month; some months on from the transfer of private sewers, that figure has doubled. In more than 98% of cases, by responding quickly we manage to deal with the blockage without causing property flooding or environmental pollution.

We have also commenced the process of transferring private sewage pumping stations and we estimate that by 2016 we will have to take responsibility for more than 600 stations to add to the 2,000 we currently operate. Many of these assets are in very poor condition. 2012 will also see the adoption of new "mandatory build standards" in Wales which will require that developers build new sewerage assets to a standard that will allow Dŵr Cymru to take them over without delay. We are collecting separately all the costs associated with the transfer of private sewers and related assets and in due course we will be considering how best we recover these additional costs from our customers.

Last year the total number of incidents resulting in the flooding of properties fell from 215 to 198, which is the lowest number for some years. Just 22 of these were due to hydraulic overload which is where the sewer backs up during heavy rainfall due to lack of capacity; during the year we completed 35 sewer improvement schemes at a cost of £8 million to reduce from 267 to 218 the number of properties at risk of repeat flooding due to hydraulic overload.

Safeguarding our environment

We collect and clean the wastewater produced by households and businesses across our region so as to protect public health and safeguard our rivers and coastal waters from pollution.

Operating our estate of ageing wastewater treatment works so that we protect our rivers and coastal waters – which are among the best in the UK – is one of our toughest jobs. In 2011, 22 of our more than 800 wastewater treatment works did not comply with the relevant numerical consent. On the measure of compliance against "look up" tables, 99.72% of population equivalent was served by a compliant wastewater treatment works in 2011, down from 99.96% in 2010. Insufficient samples were taken at a further four works to demonstrate compliance. This is not a satisfactory performance and for Ofwat's serviceability assessment we have judged our performance on above ground wastewater assets for the year 2011 as "marginal". Over the last 12 months we have "fast tracked" a detailed turnaround plan, backed by an additional investment of £30 million, targeted at reducing the risk of failing compliance at the 47 most-at-risk works. This plan is progressing well and our performance to date in 2012 is better than in the same period last year - and we are on track to return our assessment for serviceability to "stable". Continuing to renew and improve our wastewater treatment works estate will remain a priority for many years to come.

Following implementation of a wide ranging pollution reduction plan, we have reduced from 176 to 169 the number of environmental pollution incidents caused by blockages and other problems on the sewer network. Breakdowns and other problems at our wastewater treatment works took the total number of pollution incidents in 2011 to 246, down from 260 in 2010, There were just 4 serious pollution incidents in 2011 which was a marked improvement on previous years. Last year we self-reported 37% of all pollution incidents and have a target to increase this figure to 50% in 2012.

We continue to work hard to reduce the number of pollution incidents caused by blockages on our now much larger sewer network. Alongside upgrades and extensions to our "early warning" telemetry system, initiatives in the year include teams of "river rangers" who walk our sewers located close to watercourses and engaging with river users such as canoe and angling clubs. We have also carried out a detailed analysis based on more than ten years of data to risk score our sewers based on material, size, condition, location and other criteria so as to better schedule proactive work such as sewer cleansing and reduce the risk of incidents. Key to reducing problems caused by blockages and other equipment failures is a fast response and last year our average response time was just over one hour.

We invested £32 million last year in maintaining and upgrading wastewater treatment works and during the year completed a number of schemes including Five Fords (Wrexham) and Denbigh. We are also currently on site or due to commence works at locations across our operating area, including Aberporth (Ceredigion), Narberth (Pembrokeshire), and Llanfoist (Monmouthshire). A further £6 million was invested in renewing 25km of sewers. In addition we invested £7million on private sewers and drains transferred to us in October 2011.

Ensuring our treatment works and our sewer network safeguard our rivers and coastal waters from pollution is essential, not least because of the importance of our environment for the economy of our region. Wales, with only 15% of the British coastline, secured 48 Blue Flag awards – a third of the total awarded to all of the UK – for the 2012 summer season. All but one of the 88 EC designated beaches in Wales passed the mandatory European standard for coastal water quality in 2011. In addition, 53 Green Coast awards for rural beaches were won. As a result, the Marine Conservation Society has been able to recommend 121 Welsh beaches as having excellent water quality, 20% more than in the previous year and the most in Wales in the Good Beach Guide's 25 year history.

The new Bathing Waters Directive introduces a new "excellent" standard which is tighter than the current "guideline" standard required in order to win a Blue Flag award and this, alongside new land based requirements, is expected to reduce the number of beaches that will be eligible for a Blue Flag in 2013.

We have also been working with the Environment Agency, Surfers Against Sewage and Pembrokeshire County Council, to trial "spill alerts" on three beaches in West Wales to make beach users aware of bathing water quality. This proved extremely popular, and plans are now in place to extend the scheme in the year ahead.

Wales continues to have some of the highest quality rivers in the UK and as well as protecting our rivers from pollution, we must also ensure that we abstract for public water supply no more than is necessary. Key to doing so is encouraging our customers to value the water we supply and use it efficiently and on our part to keep leakage under control and down to economic levels. Last year we more than recovered the sharp rise in leakage caused by the 2010 winter freeze and we achieved our target for the year, bringing leakage down to a lowest ever level.

Since the 1990s, we have halved total leakage from our water supply network and this together with lower demand for water from heavy industry has led to a 25% reduction in the amount of water we abstract for public water supply. This apparently relatively strong water resource position has led once again to speculation about the scope for large scale water transfers from Wales to the South and East of England which following two very dry winters experienced drought. Our position is that we do not, as things stand, have a surplus of water stored and available that could be exported easily for the benefit of both our customers and customers in those areas in England short of water. And with the prospect of significant reductions in our allowed river abstractions as a result of the Habitats Directive in the near term - and projections of much reduced river flows in the longer term as a result of climate change – our overall water resource position could deteriorate materially (see Looking Ahead). Building the new reservoirs and associated infrastructure that would be required for any large scale water transfer would require considerable economic and environmental justification and would only make sense if there were no cheaper and less environmentally damaging options. While large scale, long distance water transfers might not be economic as things stand, sharing of water resources closer to our regional boundary is more likely to be and we are considering all available options with our neighbouring water companies as part of our own water resource planning for the next 25 years.

In order to maintain a healthy and sustainable water resource position, we continue to encourage sensible water use by our customers. Water efficiency is a core theme in our education programme and we promote water efficiency in other ways, including collaborative projects with the Environment Agency, the Welsh Government and the Energy Savings Trust as well as with social housing providers. Our “Be Waterwise” communication campaign, involves a series of initiatives highlighting the benefits associated with sensible water consumption.

Customers opting for meters have been offered “Meter Welcome packs” containing water and energy saving retrofit products and advice and we have undertaken over 150 business customer water efficiency audits in the year and, where appropriate, supplied and retrofitted water saving devices. We have also implemented an incentivised winter pipe lagging and communication programme (targeting those customers affected by the harsh winter of 2010) and have retrofitted our own offices as part of a “Do as I do” campaign.

Energy efficiency and reducing our carbon footprint continues as a priority for the business and last year we cut our energy consumption by 8% and our carbon emissions by 12% as a result of green energy hydro and advanced digestion schemes being fully operational along with other efficiency savings. Our new Advanced Digestion sites, installed at our wastewater treatment works in Cardiff and Afan (Port Talbot), convert wastewater sludge into electricity significantly reducing both carbon emissions and our energy costs. Electricity imported from the national grid fell by 8% last year, while gas consumption reduced by 66%. As a result, carbon emissions have fallen by almost 40,000 tonnes.

Meeting customer expectations

We continue to improve the day to day service we give our customers and during the year we successfully implemented a host of initiatives. These included setting much shorter target times for responding to sewer blockages and other network problems as well as offering more “self-serve” options and better real time information for customers on our website. We now text customers when there is, for instance, a planned interruption to water supply or any other widespread problem to keep everyone informed and this has reduced the need for customers to call us to report a problem or ask what is happening. A new and easy to follow bill layout – tested first with groups of customers – has contributed to the 22% reduction in customer calls and queries about the bill. By adopting new technologies we are now able to carry out planned work on our water network without interrupting supplies and last year only 116 customers experiencing unplanned interruptions to supply lasting more than 6 hours which is one of the best performances in the sector and a marked improvement on the previous year when the winter freeze caused a high number of interruptions. Targeted investment meant that by the end of the year just 151 customers were at risk of receiving a low pressure water supply.

As a result of all these efforts alongside our customer first culture right across the business, customer satisfaction as measured by independent research has never been higher and now stands at 90%. The number of customer complaints has fallen by more than half and the number of written compliments has increased three-fold. Our customer satisfaction rating, as measured independently by the industry regulator Ofwat, was amongst the best in the sector with our billing team coming top for the second year in a row. Independent research with largest business customers showed that 89% were satisfied with the service they get from Dŵr Cymru.

We are developing a range of new products and services for our larger business customers, helping them to become more water efficient through the provision of meter telemetry, water efficiency audits and the proactive detection and repair of leaks. We are also investing heavily to provide a better, web based service to property developers, following a successful Developers' Seminar with national developers, consultants and contractors. As a result, we have established joint working groups to review key issues such as the mandatory build standard for sewers, sustainable urban drainage schemes and the forthcoming legal requirement to provide fire sprinklers in all new domestic properties.

Employer of choice

The health and safety of everyone working for our Company is top of our agenda and last year on a like for like basis the number of reportable injuries fell from 24 to 21. More encouraging was the further increase in near-miss reporting, a key indicator for a strong health and safety culture. A host of initiatives to improve the health of our staff and to reduce the risk of accidents were introduced successfully during the year including, for example, a bespoke programme of training on manual handling for more than 700 front line colleagues. We now include in our health and safety reporting much of our supply chain, which adds some 1,500 people to the 2,000 directly employed by the Company, and we now report our safety performance against this wider population.

We made real progress last year in developing our capabilities as an organisation. We have invested heavily in the training and development of our front-line operational colleagues gaining accreditation by City and Guilds for our Water and Waste Water competent operator programmes. Our graduate and apprentice programmes are now well established, attracting high calibre individuals and are aligned to our succession plans. A new science laboratory was established in North Wales and a much larger laboratory for South Wales will be commissioned by the end of 2012 which will not only deliver some £1 million in savings but also enhance our overall science capability. We also strengthened our leadership team with a number of key external appointments. Overall, as a result of the investment we have made in all these areas, we are today a more resilient and capable enterprise than we were a year ago.

We are starting to harness the benefits of our new Working Together Agreement, which we renegotiated last year. It provides good terms and conditions and employment security in return for employee flexibility. We are on track to achieve our cost efficiency targets and with new shift patterns we can now offer our customers evening and weekend appointments in the normal course. We have underpinned these changes with a customer service improvement training programme for our front line employees.

Community

We manage over 42,000 hectares of land and own 81 catchment reservoirs situated in some of the most beautiful parts of Wales and, where practicable and safe, we encourage visitors to make the most of our reservoir sites which attract close to a million visitors each year. At our larger reservoirs we offer a range of recreational activities including cycling, fishing, sailing, canoeing, wind-surfing and diving, as well as offering picnic areas, walks and nature trails. Three of our larger sites have visitor centres and we have submitted planning applications for a new visitor centre and water sports centre at Llandegfedd Reservoir, near Pontypool, and also for an extension to our visitor centre at Llyn Brenig to provide a cycling centre of excellence (as part of a Denbighshire-wide community project to encourage mountain biking). Our reservoirs are looked after by a team of rangers dedicated to managing our facilities and the wildlife and special habitats that are in our care. The rangers also encourage visitors by hosting a range of activities including archaeological expeditions, stargazing evenings, fly-fishing courses, charity events and sponsored walks, boat trips, as well as guided nature walks and wildlife tracking.

All our main reservoirs have biodiversity management plans and we encourage conservation best practice across all our landholdings, including in the Elan Valley where a new nature reserve was created in 2010 at Dol-y-Mynach. We continue to provide practical support for a number of conservation projects in our region, the largest example of which is the Anglesey and Llyn Fens LIFE project, a five year programme led by the Countryside Council for Wales to bring 750 hectares of important wetland habitat, into favourable or recovering condition.

We have a long established and very popular environmental education programme. In the last academic year some 14,200 school children visited one of our education centres located near Pontypridd (Cilfynydd), Barry (Cog Moors), on the Denbigh Moors (Alwen) and in the Elan Valley, and over 13,000 children received lessons under an outreach programme in which our peripatetic teachers deliver water efficiency and safety lessons in schools and community groups. We also helped over 100 final year students from Newport University who spent four training days with our environmental education team.

Looking ahead

Last year was the second year of our AMP5 investment programme which will see the Company invest a total of £1.5 billion, including £100 million of accelerated investment that would otherwise have been included in our programme after the next regulatory price review in 2014. Our investment spend is prioritised to protect drinking water quality, safeguard our rivers and coastal waters from pollution, improve our cost efficiency and improve day to day customer service. Last year we invested £253 million (net of grants and financial contributions), split between water £135 million and wastewater £118 million, and including over 180km of new water mains and 152 schemes to reduce the risk of sewer flooding.

Looking ahead, one of the most important challenges we face along with the rest of the regulated water sector is how best to strike a balance between the need for investment and affordability. We employ a network of assets that would cost £25 billion to replace, and just maintaining and repairing those assets so that they continue to do the job required could absorb our entire capital budget. However, standards continue to rise and European Directives are likely to have a significant impact on what is required of Dŵr Cymru with in particular the transition to the new Bathing Waters Directive (starting this year before it comes into full effect in 2015) and the Habitats Directive which is expected to lead to calls for significant reductions in our abstractions for public water supply from a number of sensitive rivers across Wales. This is in addition to the impact of climate change in the years ahead which is expected to lead to drier summers, impacting our water resource position, and more frequent high intensity storms, impacting our legacy sewer network in particular.

These pressures to achieve tighter environmental standards will require additional investment over and above what is required to maintain the existing network and this in turn will put pressure on customer bills. Affordability matters a great deal particularly in our region where household incomes are lower with the result that some 30% of households spend 3% or more of household income on their water and sewerage bill, the second highest percentage in the sector. Some 44,000 of our least well off customers are currently benefitting from one of our social tariffs or our Customer Assistance Fund, a higher figure than for other water companies. Our goal is to secure for our customers and future generations the best possible balance between affordability and standards, making sure that new requirements pass cost benefit tests and do not compromise other more important priorities.

We are better placed to secure this balance because of our particular business model and the fact that we have no competing priorities other than to deliver the best possible outcomes for our customers and for the environment we look after. Since Glas Cymru acquired Dŵr Cymru in 2001 we have invested more than £2.5 billion on renewing and improving the assets we employ to deliver services to our customers and to protect our rivers and coastal waters from pollution.

We have also greatly improved the cost efficiency of our regulated operations in that time such that our operating costs are 8% lower today in real terms than they were in 2001, which is much the best track record in the sector. Financing efficiency is key and by having the strongest credit ratings in the UK utilities sector we are able to raise long term finance from investors at low rates of interest. Our operating and financing efficiency together have allowed us to carry out high levels of investment while keeping our customer bills affordable – in 2015, Ofwat project that our average household bill for both water and sewerage will be 7% lower in real terms compared to what it was in the year before Glas Cymru acquired Glas Cymru.

Considerable attention is currently being given by industry regulators, the Welsh Government and UK Government, to the future challenges faced by the water industry and the potential role that market reform could play in meeting those challenges. Ofwat is consulting on its "Future Price Limits" programme - wide ranging proposals that include separate price limits for "retail" and "wholesale", incentives for system management and water trading, more emphasis on longer term outcomes and customer endorsement of company plans and priorities. We are dedicated to looking after the water industry in our region on behalf of today's customers and future generations and we will always judge the proposed reforms in terms of the likely impact on our customers. We therefore wholeheartedly support all efforts to put customers at the heart of regulation of the sector. Beyond that the key test for us is that any changes must not put at risk the availability of efficient, long term funding for sustained capital investment which we believe will continue to be the overriding requirement for a high quality, reliable and affordable service, both now and into the future.

Financial review

Glas Cymru Cyfyngedig is the holding company for the Glas Cymru Group and parent of the operational company Dŵr Cymru Cyfyngedig. Dŵr Cymru has delivered a strong financial performance during the year to 31 March 2012: cash flows, gearing and credit ratings have all improved in spite of continued economic uncertainty. Achievement of Ofwat's Final Determination targets for the regulatory period to 31 March 2015 is a big challenge, in response to which we recently restructured our business operations, resulting in improved operational efficiency.

Revenue
Dŵr Cymru's turnover in the year to 31 March 2012 was £695 million (2011: £677 million), primarily reflecting the price increase of 3.4%, which was the lowest in the sector. Additional revenue from new customers has been offset by household customers switching to metered charging. The number of customers signed up to our sector-leading range of customer assistance tariffs has continued to increase. As at 31 March 2012 some 44,000 were benefiting from one of these tariffs or our Customer Assistance Fund - which support those who have difficulty paying their bills - at an annual cost to the Company of £4 million.

Operating costs
Dŵr Cymru incurred total operational costs (excluding IRE and depreciation) of £273 million (2011: £265 million), with inflationary increases and costs associated with the private drains and sewers transfer being offset by efficiency savings – excluding private sewers and non-regulated activities we have delivered a real terms (before RPI inflation) operating cost reduction of some 3%. Ofwat's Final Determination challenged Dŵr Cymru to reduce its day-to-day operating costs by some 20%; we are making good progress to meet this target, which enables the forecast average household bill to fall by more than £30 in real terms over the five years to 2015.

All water and sewerage companies need to draw on significant energy resources, particularly for water treatment and pumping processes, and Dŵr Cymru – with its network spread across Wales's undulating topography – is no exception. Schemes to produce renewable energy from sewage sludge have been commissioned at Cardiff and Port Talbot wastewater treatment works (as part of a £75 million anaerobic digestion programme) with enough energy being generated onsite to power 8,000 houses. Power costs during 2011-12 remained stable at £34 million (2011: £34 million); the £3 million impact of the first year of the CRC Efficiency Scheme has been offset by the increase in our onsite generation. There remains significant uncertainty over future energy costs, and we have forward purchased around 70% of the estimated power requirements of the business over the remainder of the regulatory period to 31 March 2015.

Customer debt recovery remained a high priority for Dŵr Cymru. In a difficult economic environment, in which water companies have no sanction to disconnect supplies to non-paying domestic customers, cash collection has continued to be challenging. The bad debt charge for the year of £27 million (2011: £22 million) represents 3.9% of annual turnover (2011: 3.2%) and reflects a review of historical collection rates.

Infrastructure renewals expenditure
Expenditure on infrastructure renewals (IRE) has doubled on the prior year, rising from £40 million to £81 million - the higher figure reflects a greater focus on maintenance in year two of the Company's AMP5 capital investment programme (2010-2015). There has been significant catch-up in the mains in poor condition programme and a greater number of sewer rehabilitation schemes. Leakage activities directed towards meeting our leakage target set by Ofwat cost £6 million, while private sewer-related expenditure amounted to a further £2 million.

Financing costs
Net interest payable (excluding loss on derivatives) of £185 million was £15 million higher than last year. This is predominantly the effect of a £14 million accounting profit recognised in the previous year on termination of finance leases. Retail prices index (RPI) inflation remained relatively stable on the reference dates applying to the indexation charge on our index-linked bond and finance lease inflation swaps. The average cost of debt during the period was 6.9% (2011: 6.4%).

Dŵr Cymru has a number of derivative swap contracts which fix the interest cost or inflation-link the cost of debt and, while these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39.

Changes in market values can create volatility in the income statement and fair value losses in 2011-12 amounted to £138 million (2011: gains of £12 million). There is, however, no impact on cash flows: the Company intends to hold these swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero.

Loss before taxation

The consolidated income statement reports a loss before taxation of £131 million (2011: profit £70 million). Excluding the fair value movements discussed above, the profit before tax was £7 million (2011: £58 million). This underlying profit was made after funding a 1% real-terms reduction in customer bills and reflects in particular the higher level of investment in IRE during the year.

Taxation

The total taxation credit for the year is £33 million. The deferred tax credit arising in the year was £35 million. There was also a £24 million deferred tax credit due to the corporation tax rate reduction from 26% to 24% in future years and a prior year deferred tax charge of £30 million relating primarily to the deferred tax treatment of finance leases.

The group has tax trading losses carried forward of approximately £400 million which the group believes should be sufficient to eliminate tax on trading profits in the remainder of the regulatory period ending 31 March 2015, subject to changes in tax law.

Pension funding

The statement of comprehensive income reports pension scheme actuarial losses in the year of £26 million and a balance sheet liability of £32 million. However, this is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme, as at 31 March 2011, showed that it was 98% funded with a projected deficit of £5 million.

The sensitivity of the IAS 19 valuation to small changes in interest rate assumptions has increased considerably following the in-sourcing of the major operational contracts in 2010-11 and some 800 employees opting to transfer their past service benefits into the scheme. If the discount rate were to change by 0.1%, the balance sheet obligation as at 31 March 2012 would increase or reduce by £6 million (2011: £5 million).

Liquidity and financial reserves

Dŵr Cymru aims to offer a secure, low risk investment to investors. By building and maintaining a strong financial position, we intend to keep our borrowing costs low, enabling us to finance future investment efficiently whilst maintaining affordability for our customers.

On Glas Cymru's acquisition of Dŵr Cymru in May 2001, gearing stood at 93%. Since then, the financial position has improved steadily, such that gearing had fallen to 65% by 31 March 2012 and 'financial reserves' (RCV less net debt) were £1.5 billion.

On 6 July 2011 Dŵr Cymru (Financing) Limited issued £120 million B6 series index-linked bonds with a maturity date of 2048 (as a tap of the £140 million existing B6 issue) to provide funding for Dŵr Cymru's AMP5 investment programme. The Company redeemed the last of its junior (Class C) bonds during 2010-11, and the £2.7 billion of remaining debt comprises entirely of 'A' rated Class A and B senior debt.

On 15 September 2011, Dŵr Cymru (Financing) Limited drew down £25 million of a £100 million facility with the European Investment Bank.

As at 31 March 2012 the Company had total available liquidity of £516 million, including cash balances of £301 million, with funding in place for the remainder of the current regulatory period which runs to 2015.

Credit ratings and interest rate management

Dŵr Cymru has the strongest credit ratings in the water sector, reflecting the group's high level of creditworthiness. The ratings of the Company's Class A and B debt at 31 March 2012 were A/A3/A from Standard & Poor's (S&P), Moody's and Fitch Ratings.

The Board has always adopted prudent financial policies, predominantly covering the fixing of interest rates and the investment of cash balances. Dŵr Cymru's policy is to minimise its exposure to movements in market rates, with a minimum of 85% of its liabilities being fixed rate, index-linked to the UK RPI or matched by cash balances. The Board considers that linking debt to UK RPI inflation is particularly appropriate, as Dŵr Cymru's revenues and regulatory capital value are also linked to RPI through the regulatory system operated by Ofwat. Implementation of the policies is delegated to a small team of specialists which operates to ensure that Dŵr Cymru meets the requirements of its licence, and therefore undertakes no speculative trading.

As at 31 March 2012, approximately 65% of gross debt was index-linked via bonds and derivatives (2011: 63%), with the remainder fixed. The expected maturity of the outstanding fixed rate and index-linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Capital investment

Dŵr Cymru's strong financial position has been built up over the last 11 years, and provides a stable base from which it can respond positively to the challenges of the economic recession and drive forward its continuing large capital programme.

Dŵr Cymru works with an alliance of capital investment partners to deliver the investment programme at the best value for money for customers. Dŵr Cymru is planning to invest some £1.5 billion over the current AMP period which runs from 2010 to 2015, bringing sustained improvements to customer service, drinking water quality and the environment. Total capital expenditure by Dŵr Cymru during the year (including IRE) was £262 million, bringing total investment during the AMP period to date to over £500 million. The group plans to invest a further £1 billion over the course of the next three years, one of our largest ever investment programmes.

Private Sewers

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private drains and sewers in its operational area, potentially doubling the size of the network. Little information is available to judge the condition of these assets – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, no value has been attributed to private drains and sewers in the balance sheet as at 31 March 2012. During the year, Dŵr Cymru incurred associated costs of £6.9 million, of which £3.3 million formed part of the capital investment programme while the remaining £3.6 million were classified as operating expenditure.

Regulatory arrangements have yet to be finalised with regard to the recovery of additional expenditure associated with this transfer. The treatment is expected to be via existing regulatory methods, at the 2014 price review or an earlier interim determination of the price control. As far as possible, it is expected that the performance of these new assets will be ring-fenced so as not to distort the assessment of the underlying performance of the business.

Looking ahead

A key part of our strategy is to maintain the affordability of customer bills in the long term while at the same time maintaining the serviceability of the Company's network of water and wastewater assets which have a replacement value of over £25 billion. The Company remains prudently financed with gearing at 65% and good liquidity in these uncertain times. The Board considers that the current level of gearing will enable the Company to efficiently fund the AMP5 investment programme to 2015.

Ofwat has set us an efficiency target of some 20 per cent in our day to day running costs. In addition to a headcount reduction, we will do this by exploiting our recent large investment in new technology, by eliminating the profit element, overhead and contract management costs of many of the previously outsourced services, and by investing in green energy and processes to reduce power costs. This involves considerable investment by the Company and forms part of our planned £1.5 billion investment programme to improve services.

In the face of these major challenges, our priority will remain the essential task of guaranteeing safe and reliable services for all our customers as well as safeguarding the environment, at an affordable cost.

Managing Risk

It is essential that we manage risk effectively in order to deliver high quality and efficient services to customers.

Most risks can be mitigated by ensuring that appropriate controls are in place, but there are many matters which could have a material effect on our long-term performance that are outside our control; no company is insulated from the impact of economic recession, climate change or of a changing regulatory environment. The Board therefore commits significant time to review policies and corporate and operational strategies to mitigate risk. Some of these risks are specific to Dŵr Cymru or arise as a result of our unique business model, and others affect all companies in the sector but have a specific resonance for Dŵr Cymru.

COMPANY SPECIFIC RISKS: in the past year Board discussion focused on the significant level of organisational and cultural change that followed our decision to bring back in-house the operation and maintenance of Dŵr Cymru's network of assets. This has meant creating a single business where there were previously three, and in particular establishing a new management structure and a single set of HR policies for our staff. We have done this at the same time as we are introducing major changes to our IT and operational systems - which have fundamentally changed our working practices - and in a regulatory period in which we have the toughest efficiency challenge in the sector. These changes (which include much greater mobile working) have provided opportunity to refocus all aspects of what we do as a performance led and customer focused business. We also had some specific operational challenges to address in 2011-12 including, in particular, the need to achieve our leakage target.

SECTOR RISKS: risks that affect all water companies to a greater of lesser extent include operational, financial and regulatory risk.

<u>Operational risks</u> typically arise from greater variability in weather conditions, which can freeze operational assets or create rapid changes in temperature or flows through our network which cause essential equipment to fail when conditions fall outside of its design parameters; and any extreme weather - hot, cold, dry or wet - can also increase occupational health and safety risk. These risks are material for companies in the sector like Dŵr Cymru who have a disproportionately large number of operational assets – treatment works, pumping stations, service reservoirs, etc – many of which are very small (which makes them especially vulnerable to changes in temperature and flow) and/or are located in remote rural areas (which can make them difficult to get to – for delivery of essential supplies or maintenance purposes).

Drought can impact on our ability to maintain services to customers as the amount of water we can abstract is tightly controlled (with little headroom), which means that we are potentially as vulnerable as any other water company to variable weather conditions.

We are also seeing an emerging risk associated with theft of copper and other metals which are causing risks directly to the operation of our works and indirectly through risk of interruption to communications networks and power supply.

<u>Financial risks</u> are generally heightened at times of economic uncertainty and this is kept under regular Board review. Affordability has never been more important, particularly in the region we serve, where some 30% of households spend more than 3% of their disposable income on their water bill. Even though we have lowest bill increase in the sector and by 2015 our average combined bill will be 6% lower in real terms than in the year before Glas Cymru acquired Dŵr Cymru, and are helping some 44,000 customers through our social tariffs, cash collection is becoming harder and bad debt is rising. We are also exposed to rising commodity prices, especially power costs which are around 13% of our total operating expenditure. We are mitigating this risk by appropriate cost hedging and forward purchasing of power and by maximising the green energy we can generate from our operations, which doubled last year.

Access to capital markets is also a risk during this period of regulatory uncertainty, as rating agencies report that structural changes could affect the sector's ratings and its cost of capital. This is mitigated for Dŵr Cymru at least in the short term as we have strong financial liquidity and we have secured the funding for our capital investment programme at least to the end of the AMP5 period.

Regulatory risk arises in two main areas: in connection with proposals for future market reform in the water industry, and with the continuing pressure on all water companies to adopt new and tighter standards of compliance, especially for the environment.

The DEFRA 'white paper' (Water for Life) sets out some of the key challenges facing the industry in the years to come and it proposes a number of responses which together could lead to significant changes in the structure of the regulated water industry in England, including for example the possibility of allowing new market entrants to put treated water into existing water supply networks. The extent to which similar changes will affect the legal framework for the water industry in Wales is not yet known, but is likely to be clearer once the Welsh Government has published its updated Strategic Policy Position Statement on Water later this year. In addition, Ofwat plans to consult on the methodology for the 2012 price review in the autumn of 2012. It is expected that certain changes will be proposed, including two price limits, one for retail and one for wholesale.

Our concern with new standards of compliance is that these will put upward pressure on costs which cause customer bills to rise or 'squeeze out' much needed investment to maintain and renew our existing network of assets, thereby increasing the risk of non-compliance with existing standards. It also reduces funds available to tackle other priorities - like reducing the risk of sewer flooding and providing the infrastructure needed to support economic development. Our view is that it is at least as important to the water environment in our region that we make sure our existing network of sewerage and wastewater assets does its job reliably and well. This is a big challenge (even before consideration of any new obligations) because in the AMP5 regulatory settlement we have been funded to spend around £30 million a year to replace 25-30km of sewer: a rate of renewal that implies that our sewers will last for 700 years, whereas the average 'engineering life' may be nearer 100 years.

Our focus in this period of regulatory uncertainty is to ensure that, when they are discussing changes in structure or new standards of compliance, policy makers and regulators have the information they need to consider the 'trade-offs' so that the best possible outcomes for customers can be agreed. We will then engage with our customers to explain what will be delivered - and, just as important, what will not - and what it will mean for service standards and bills.

A good example of changing compliance standards is the new EC Bathing Water Directive, which will come into effect in 2013. This will introduce a new and much tighter 'excellent' standard for bathing water quality, which will be required for the award of a Blue Flag, and will likely see bathing water compliance fall from 89% this year against the current 'guideline' standard (which compares to an average of 79% in England) to nearer 60% against the new 'excellent' standard.

Another regulatory risk arises because Ofwat's Final Determination for Dŵr Cymru in AMP5 is one of the most challenging since privatisation - we have the toughest cost efficiency targets in the sector, despite having the best record for efficiency improvements since 2001. Furthermore, Ofwat's cost assumptions for the sector were based on benign economic conditions in which, for example, bad debts were assumed to be no higher than they were in 2008-09. The assumed rate of renewal of our ageing network of water and sewerage assets also has implications when Ofwat assesses our performance against the 20 measures of 'serviceability' - any one of which, if not met, could lead to a financial penalty at the time of the next price review in some circumstances.

Finally, in last year's annual report we flagged the transfer of private sewers as a key risk, which in October 2011 significantly increased the length of our sewer network, adding sewers about which we have very little information as to location or condition. Notwithstanding this, the mitigation arrangements and resources we put in place have worked well and the private sewer network has been absorbed with minimal impact on our overall service to customers. However, the workload associated with sewers has been significant and is increasing, with more blockage clearance jobs now occurring on the former private sewers than on the public sewer network. There also remains a continuing risk as we plan ahead to the next price review and, given the limited information available, assess the future investment needed to maintain service standards to customers served by these previously private assets.

Independent auditor's report to the members of Glas Cymru Cyfyngedig

We have audited the group and parent company financial statements (the ''financial statements'') of Glas Cymru Cyfyngedig for the year ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors
The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2012 and of the group's loss and group and parent company's cash flows for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Other matters

The directors have requested, (because the company applies Listing Rules 9.8.6R 3, 5 and 6 of the Financial Services Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review by the Listing Rules of the Financial Services Authority. We have nothing to report in respect of these reviews.

At the request of the directors, we have also audited the part of the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
13 June 2012

Consolidated Income Statement for the year ended 31 March 2012

			2012		2011
Continuing activities	Note	**£m**	**£m**	£m	£m
Revenue			**695.0**		676.7
Operating costs:					
- Operational expenditure	3	**(272.5)**		(264.6)	
- Infrastructure renewals expenditure	3	**(81.1)**		(40.0)	
- Depreciation and amortisation	3	**(150.0)**		(144.6)	
			(503.6)		(449.2)
Operating profit			**191.4**		227.5
Financing costs:					
- Interest payable and similar charges	4a	**(189.7)**		(173.5)	
- Interest receivable and similar income	4a	**4.9**		4.1	
- Fair value (losses)/gains on derivative financial instruments	4b	**(137.6)**		12.3	
			(322.4)		(157.1)
(Loss)/profit before taxation	3		**(131.0)**		70.4
Taxation	5		**27.0**		68.1
(Loss)/profit for the year			**(104.0)**		138.5

Underlying profit for the year
(Profit before taxation and fair value adjustments)

	2012	2011
	£m	£m
(Loss)/profit before taxation per Income Statement	**(131.0)**	70.4
Adjustment for:		
- Fair value losses/(gains) on derivative financial statements (see note 4b)	**137.6**	(12.3)
Profit for the year before taxation and fair value adjustments	**6.6**	58.1

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The profit of the parent company for the year was £nil (2011: £nil).

Consolidated Statement of Comprehensive Income for the year ended 31 March 2012

	Note	**2012 £m**	2011 £m
(Loss)/profit for the year		**(104.0)**	138.5
Actuarial loss recognised in the pension scheme	20	**(25.8)**	(4.7)
Movement on deferred tax asset relating to pension scheme	5, 6	**6.2**	1.2
Total comprehensive (expense)/income for the year		**(123.6)**	135.0

Consolidated Statement of Changes in (Deficit)/Reserves for the year ended 31 March 2012

	2012 £m	2011 £m
Reserves/(deficit) at 1 April	**46.2**	(88.8)
Total comprehensive (expense)/income for the year	**(123.6)**	135.0
(Deficit)/reserves at 31 March	**(77.4)**	46.2

There were no changes in reserves of the parent company during the year (2011: none).

Consolidated Balance Sheet as at 31 March 2012

	Note	**2012 £m**	2011 £m
Assets			
Non-current assets			
Property, plant and equipment	7	**3,231.9**	3,178.9
Intangible assets	8	**66.6**	65.4
Financial assets:			
- derivative financial instruments	14	**-**	2.6
		3,298.5	3,246.9
Current assets			
Trade and other receivables	10	**511.9**	489.3
Financial assets:			
- derivative financial instruments	14	**4.4**	4.4
Cash and cash equivalents	11	**300.5**	98.3
		816.8	592.0
Liabilities			
Current liabilities			
Trade and other payables	12	**(534.2)**	(506.7)
Financial liabilities:			
- borrowings	13	**(77.5)**	(26.9)
- derivative financial instruments	14	**(25.0)**	(44.6)
Provisions		**(12.5)**	(16.8)
		(649.2)	(595.0)
Net current assets/(liabilities)		**167.6**	(3.0)
Non-current liabilities			
Trade and other payables	12	**(57.3)**	(33.1)
Financial liabilities:			
- borrowings	13	**(2,912.6)**	(2,733.9)
- derivative financial instruments	14	**(277.4)**	(122.8)
Retirement benefit obligations	20	**(31.9)**	(15.5)
Provisions	16	**(7.9)**	(6.6)
		(3,287.1)	(2,911.9)
Net assets before deferred tax		**179.0**	332.0
Deferred tax - net	6	**(256.4)**	(285.8)
Net (liabilities)/assets		**(77.4)**	46.2
(Deficit)/reserves		**(77.4)**	46.2

The financial statements on pages 18 to 51 were approved by the Board of directors on 13 June 2012 and were signed on its behalf by:

N C Annett
Managing Director

C A Jones
Finance Director

Parent Company Balance Sheet as at 31 March 2012

	Note	2012 £m	2011 £m
Assets			
Non-current assets			
Investment in subsidiaries	9b	**-**	-
Trade and other receivables	10b	**3.4**	3.4
		3.4	3.4
Current assets			
Cash and cash equivalents	11	**0.1**	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	12	**(3.5)**	(3.5)
		(3.5)	(3.5)
Net assets		**-**	-
Reserves			
Retained earnings		**-**	-
Total reserves		**-**	-

The financial statements on pages 18 to 51 were approved by the Board of directors on 13 June 2012 and were signed on its behalf by:

N C Annett
Managing Director

C A Jones
Finance Director

Consolidated Cash Flow Statement for the year ended 31 March 2012

	Note	**2012**	2011
		£m	£m
Cash flows from operating activities			
Cash generated from operations	17a	**337.5**	388.2
Interest received		**4.6**	4.1
Interest paid	17b	**(98.0)**	(143.7)
Tax receipt		**2.5**	1.7
Net cash generated from operating activities		**246.6**	250.3
Cash flows from investing activities			
Purchase of property, plant and equipment		**(185.5)**	(227.4)
Grants and contributions received		**9.5**	14.1
Net cash used in investing activities		**(176.0)**	(213.3)
Net cash generated before financing activities		**70.6**	37.0
Cash flows from financing activities			
Long term loans received		**25.0**	75.0
Bond issue proceeds		**128.1**	-
Bond redemption		**-**	(125.0)
Term loan repayments		**(13.5)**	(8.9)
Capital element of finance lease payments		**(7.7)**	(128.2)
Other loan repayments		**(0.3)**	(0.3)
Net cash generated from/(used in) financing activities		**131.6**	(187.4)
Increase/(decrease) in net cash	18	**202.2**	(150.4)
Net cash at 1 April		**98.3**	248.7
Net cash at 31 March	11	**300.5**	98.3

The parent company had no cash flows during the year (2011: none).

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2012

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented.

Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

In the year, there were no changes to the reporting framework which impact on Glas Cymru's financial statements for the year ended 31 March 2012.

At the date of approval of these financial statements, the following relevant Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures (amendment)
IFRS 9	Financial Instruments: Classification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (amendment)
IAS 19	Employee Benefits (amendment)
IAS 32	Financial Instruments: Presentation (amendment)

The presentational impact of these Standards and Interpretations is being assessed, but the directors anticipate that their adoption in future periods will have no material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries. The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Intra-group transactions and profits are eliminated on consolidation.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for services provided, excluding value added tax. Where services have been provided, but for which no invoice has been raised at the year-end, an estimate of the value is included in revenue (see the 'Critical accounting estimates' section for further details).

Revenue recognised reflects the actual charges levied on customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the steering committee that makes strategic decisions.

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and, in respect of capital projects commenced after 1 April 2009, borrowing costs in accordance with IAS 23.

Property, plant and equipment comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and

Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable. Asset lives and residual values are reviewed annually.

1) Infrastructure assets

Infrastructure assets comprise principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. The wastewater system is segmented into components representing geographical operating areas, reflecting the way the group operates its wastewater activities.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, which are included at cost. Expenditure incurred in repairing and maintaining the operating capability of individual infrastructure components, 'infrastructure renewals expenditure', is expensed in the year in which the expenditure is incurred.

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 60 to 150 years.

2) Other assets

Other assets are depreciated on a straight line basis over their estimated useful economic lives, which are as follows:

Freehold buildings	60 years
Leasehold properties	over the lease period
Operational structures	5 – 80 years
Fixed plant	8 – 40 years
Vehicles, mobile plant, equipment and computer hardware & software	3 – 16 years

Assets in the course of construction are not depreciated until commissioned.

Intangible assets

Intangible assets, which comprise principally computer software and system developments, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intengible assets when the relevant recognition criteria are met (as per IAS 38).

Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually. The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered.

Leased assets

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'financial liabilities – borrowings'. Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor with the finance charge being recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets.

Grants in respect of revenue expenditure are credited to the Income Statement over the same period as the related expenditure is incurred.

Capital expenditure programme incentive payments

The group's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses payable after completion of the programmes. The cost of property, plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end, where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are only recognised on completed projects.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not individually significant. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are assessed collectively for impairment based on their ageing. Movements in the provision for impairment are recorded in the income statement.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions, net of any overdrafts.

Pension costs

1) Defined benefit scheme

A majority of the group's employees belongs to the group's defined benefit pension scheme, which is funded by both employer's and employees' contributions. Actuarial valuations of the scheme are carried out at intervals of not more than three years. Contribution rates are based on the advice of a professionally qualified actuary.

The net asset or liability recognised in the balance sheet represents the present value of the defined benefit obligations less the fair value of the plan's assets. The defined benefit obligation is determined by discounting the liabilities using a discount rate derived from the yield on high quality corporate bonds.

The group's defined benefit scheme service cost, being the increase in the present value of the liabilities expected to arise from employee service in the period, is included in operating costs. The expected return on scheme assets and interest on scheme liabilities are included in financing costs in the income statement. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the Statement of Comprehensive Income.

2) Defined contribution scheme

The group also operates a defined contribution scheme for those employees who are not members of the defined benefit scheme. Obligations for contributions to the scheme are recognised as an expense in the Income Statement in the period in which they arise.

Financial liabilities

Debt is measured initially at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

Trade payables are obligations to pay for goods/services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Derivative instruments utilised by the group are interest rate and inflation swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Derivatives are recognised initially and subsequently re-measured at fair value (based on market price data from relevant counterparties). During the year to 31 March 2012, none of the group's derivatives qualified for hedge accounting under IAS 39 (2011: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

Provisions for restructuring costs, dilapidations and uninsured losses are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of oblgiation may be small.

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board. The policy specifically prohibits any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee (the 'Security Trustee'). The risk is further mitigated by limiting exposure to any one counterparty. The group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, finance leases, bank loan facilities and derivatives.

Credit risk

The group has a prudent policy for investing cash and short term bank deposits ('cash investments'). Counterparties for cash investments must meet minimum short term and/or long term credit ratings as published by Standard & Poor's ('S&P'), Moody's Investor Service Limited ('Moody's') and Fitch Ratings Limited ('Fitch'). The minimum short term rating, for cash deposits of up to one year, is A1/P1/F1 and the minimum long term rating, for cash deposits over one year, is AA-/Aa3/AA- each for S&P, Moody's and Fitch respectively. The Board reviews counterparties annually for cash investments and the credit limit assigned to each.

The group has continued to follow a cautious policy for investing cash deposits as a response to the situation in the banking market. Other than £60 million of commercial paper invested with the European Investment Bank (with maturities ranging from 7 to 12 months), cash is invested for a maximum period of one month. The maximum cash investment with a single counterparty was £30m (2011: £142m).

Interest rate risk

The group hedges at least 85% of its total outstanding financial liabilities, including finance leases, into either index-linked or fixed rate obligations. For this purpose floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the group to inflation risk. Subject to market constraints and Board approval, the group therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,990m as at 31 March 2012 (2011: £2,761m), none related to floating rate debt (2011: none). The group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2012, 100% (2011: 100%) of the group's gross debt was at fixed or index-linked ('RPI') rates of interest after taking into account interest rate and RPI swaps. The 'hedges' established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £298m in the balance sheet at 31 March 2012 (2011: £160m) but, assuming that the swaps are held to maturity, this will ultimately reduce to nil.

Power price hedges

The company enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. The company has forward-purchased around 70% of the estimated power requirement of the business over the remainder of the regulatory period to 31 March 2015. These contracts neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and, consequently, are not included in the financial statements until the contracts are effective.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,990m (2011: £2,761m) can fall due in any 24 month period.

Liquidity risk

We maintain committed banking facilities in order to provide flexibility in the management of the group's liquidity.

On 6 July 2011 the group issued £120m Class B index-linked bonds with a maturity date of 2048 (as a tap of the existing B6 issue).

Under the Common Terms Agreement which governs the group's obligations to its bond holders and other financial creditors, the group is required to have cash available to fund operations for a duration of 18 months. As at 31 March 2012, the group had committed undrawn borrowing facilities of £215m (2011: £200m) and cash and cash equivalents (excluding debt service payments account) of £238m (2011: £88m).

On 17 and 18 May 2011 the group entered into new revolving credit facilities totalling £140m with a group of six banks. £50m of these facilities remain avilable until May 2016, with the balance of £90m until May 2017. There is also a £10m overdraft facility (2011: £10m).

On 6 July 2011 Dŵr Cymru (Financing) Limited issued £120 million B6 series index-linked bonds with a maturity date of 2048 (as a tap of the £140 million existing B6 issue) to provide funding for Welsh Water's AMP5 investment programme. The company redeemed the last of its junior (Class C) bonds during 2010-11, and the £2.7 billion of remaining debt comprises entirely of 'A' rated Class A and B senior debt.

As at 31 March 2012 there was also a special liquidity facility of £135m (2011: £150m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants.

Capital risk management

The group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the group operates, the group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. The Board considers that it is in the best long-term interests of Welsh Water's customers to maintain the level of gearing at around 70%. As at 31 March 2012 gearing was 65%.

In respect of the risks detailed above, further quantitative disclosures are provided in note 15.

Critical accounting estimates

The preparation of financial statements which conform to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 1%, the provision for impairment would increase or decrease by £0.5 million (2011: £0.5 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2012 would increase or reduce by £6.1 million (2011: £4.7 million).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2012 was £61.6 million (2011: £63.6 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.6 million (2011: £0.5 million).

2. Segmental information

The directors consider that there is only one operating segment, being the operation of water and sewerage business in the UK. As the group has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

3. (Loss)/profit before taxation

The following items have been included in arriving at the (loss)/profit before taxation:

	Group Total 2012 £m	Total 2011 £m
Operating charges		
Power	**34.4**	33.7
Chemicals	**8.8**	8.5
Materials and equipment	**3.0**	2.9
Telephony	**5.0**	4.0
Vehicles and plant	**8.4**	7.3
Office expenses	**3.9**	2.3
Property costs	**3.9**	3.8
Insurance	**4.4**	5.3
Sewerage contractors	**2.0**	3.4
Water costs	**5.7**	4.8
Customer services agreement	**20.1**	19.8
Laboratories and analytical services	**5.6**	6.9
Collection commissions	**4.1**	3.9
IT contracts	**13.3**	17.8
Other bought-in services	**21.1**	28.4
	143.7	152.8
Employee costs (note 19)	**79.5**	72.0
Staff costs capitalised	**(21.4)**	(22.3)
Subcontracted staff costs	**-**	1.4
	58.1	51.1
Research and development expenditure	**0.5**	0.5
Trade receivables impairment	**27.0**	22.3
Rates	**27.9**	22.7
Environment Agency charges	**15.1**	15.0
Fees payable to auditors	**0.2**	0.2
Total operational expenditure	**272.5**	264.6
Infrastructure renewals expenditure	**81.1**	40.0
Depreciation and amortisation		
Owned assets	**104.8**	89.1
Under finance leases	**33.9**	47.9
Amortisation of intangible assets	**11.4**	7.7
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)
	150.0	144.6
	503.6	449.2

Services provided by the group's auditors

During the year, the group obtained the following services from the group's auditors:

	Group	
	2012	2011
Audit fees	**£'000**	£'000
Statutory audit of parent company and consolidated financial statements	**11**	11
Statutory audit of subsidiary companies	**77**	77
Total statutory audit fees	**88**	88
Audit-related fees		
Review of interim financial statements	**22**	23
Regulatory audit services pursuant to legislation	**39**	39
Bond prospectus update and bond issue	**25**	-
Total audit and audit-related fees	**174**	150
Other services		
Tax advisory services	**14**	-
Other	**8**	8
Total other services	**22**	8
Total cost of services provided by the group's auditors	**196**	158

Regulatory audit services include audit work on the Regulatory Accounts, June Return and Principal Statement. In addition to the above services, PricewaterhouseCoopers LLP acted as auditors to the DCWW Pension Scheme. The appointment of auditors to the pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The fees paid in respect of audit services to the pension scheme during the year were £13,000 (2011: £12,000).

The Board has adopted a formal policy with respect to services received from external auditors. The external auditors will not be used for internal audit services and all non-audit work above a threshold of £25,000 will be subject to prior competitive tendering and approval by the Audit Committee.

4. Financing costs

a) Net interest before fair value (losses)/gains on derivative financial instruments

	Group	
	2012	2011
	£m	£m
Interest payable on bonds	**(83.1)**	(88.2)
Indexation on index-linked bonds	**(52.1)**	(48.2)
Interest payable on finance leases (including swaps to RPI)	**(45.1)**	(28.1)
Other loan interest	**(12.1)**	(12.0)
Other interest payable and finance costs	**(3.9)**	(3.1)
Net interest (charge)/credit on pension scheme liabilities	**(0.1)**	0.7
Capitalisation of borrowing costs under IAS 23 (2012: 6.8%, 2011: 6.3%)	**6.7**	5.4
	(189.7)	(173.5)
Interest receivable	**4.9**	4.1
Net interest payable before fair value adjustments	**(184.8)**	(169.4)

b) Fair value (losses)/gains on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 14 in respect of derivative financial instruments held on the balance sheet.)

	Group	
	2012	2011
	£m	£m
Fair value (losses)/gains on interest rate swaps	**(35.3)**	1.2
Fair value (losses)/gains on index-linked swaps	**(102.3)**	11.1
Total fair value (losses)/gains on derivative financial instruments	**(137.6)**	12.3

Interest rate swap losses are caused by a fall in long-term swap rates, while the index-linked swap losses result from a fall in the value of index-linked gilts and fluctuations in 3-month LIBOR.

5. Taxation

Analysis of credit in the year

	Group	
	2012	2011
	£m	£m
Current tax		
Current period	**1.4**	-
Adjustment in respect of prior years	**2.4**	2.5
	3.8	2.5
Deferred tax		
Origination and reversal of timing differences	**35.4**	44.9
Adjustment in respect of prior years	**(30.3)**	-
Effect of tax rate change	**24.3**	21.9
	29.4	66.8
Total taxation credit	**33.2**	69.3
Analysed as:		
Credit to Income Statement	**27.0**	68.1
Credit to Statement of Comprehensive Income	**6.2**	1.2
	33.2	69.3

The £3.8m corporation tax refund comprises tax repayments in respect of expenditure on environmentally friendly equipment. The deferred tax credit includes £24.3m arising from the reduction of the corporation tax rate from 26% to 24%, while the prior year adjustment relates to the termination of finance leases on 31 March 2011.

Tax trading losses carried forward as at 31 March 2012 are circa £400m (2011: £387m).

The effective rate of tax for the year is lower (2011: lower) than the standard rate of corporation tax in the UK (2012: 26%, 2011: 28%). The differences are explained below:

	Group	
	2012	2011
	£m	£m
(Loss)/profit before tax	**(131.0)**	70.4
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 26% (2011: 28%)	**(34.1)**	19.7
Effect of:		
Adjustments in respect of prior years	**27.9**	(34.1)
Other permanent differences	**1.1**	(33.0)
Effect of tax rate change	**(21.9)**	(21.9)
Movement on deferred tax asset relating to pension scheme	**(6.2)**	-
Total taxation credit	**(33.2)**	(69.3)

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011: 26%).

The movement in the deferred tax provision is as shown below:

	Group	
	2012	2011
	£m	£m
At 1 April	**285.8**	352.6
Credit to Income Statement	**(23.2)**	(65.6)
Credit to Statement of Comprehensive Income	**(6.2)**	(1.2)
At 31 March	**256.4**	285.8

	Group	
	2012	2011
	£m	£m
Effect of:		
Tax allowances in excess of depreciation	**450.3**	435.8
Capital gains rolled over	**3.8**	4.1
	454.1	439.9
Deferred tax on tax losses carried forward	**(114.5)**	(101.0)
Deferred tax on losses on derivative financial instruments	**(71.9)**	(42.1)
Pensions	**(7.7)**	(4.0)
Other tax differences	**(3.6)**	(7.0)
Net provision for deferred tax	**256.4**	285.8

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future periods.

The company has no deferred tax balance.

7. Property, plant and equipment

Group

Current year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2011	34.9	1,586.8	2,770.6	234.7	4,627.0
Additions net of grants and contributions	0.2	40.3	150.1	2.7	193.3
At 31 March 2012	**35.1**	**1,627.1**	**2,920.7**	**237.4**	**4,820.3**
Accumulated depreciation					
At 1 April 2011	17.3	188.4	1,037.1	205.3	1,448.1
Charge for the year	0.6	23.9	95.7	20.1	140.3
At 31 March 2012	**17.9**	**212.3**	**1,132.8**	**225.4**	**1,588.4**
Net book value					
At 31 March 2012	**17.2**	**1,414.8**	**1,787.9**	**12.0**	**3,231.9**

The net book value of property, plant and equipment includes £106.8m in respect of assets in the course of construction (2011: £119.1m).

The net book value of property, plant and equipment includes £16.6m of borrowing costs capitalised in accordance with IAS 23 (2011: £10.8m), of which £6.2m were additions in the year (2011: £5.4m).

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private drains and sewers has significantly increased the size of the network. Little information is available to judge the condition of those sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of £nil has been attributed to these assets in the financial statements as at 31 March 2012.

Prior year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2010	34.4	1,560.2	2,605.6	227.5	4,427.7
Additions net of grants and contributions	0.5	26.6	165.0	7.2	199.3
At 31 March 2011	34.9	1,586.8	2,770.6	234.7	4,627.0
Accumulated depreciation					
At 1 April 2010	17.3	165.3	942.6	184.7	1,309.9
Charge for the year	-	23.1	94.5	20.6	138.2
At 31 March 2011	17.3	188.4	1,037.1	205.3	1,448.1
Net book value					
At 31 March 2011	17.6	1,398.4	1,733.5	29.4	3,178.9

Assets held under finance leases
Included within the above are assets held under finance leases, analysed as below:

Group

Current year	**Infrastructure assets**	**Operational structures**	**Total**
	£m	**£m**	**£m**
At 31 March 2012			
Cost	**611.8**	**483.9**	**1,095.7**
Accumulated depreciation	**74.7**	**251.6**	**326.3**
Net book value	**537.1**	**232.3**	**769.4**

Prior year	**Infrastructure assets**	**Operational structures**	**Total**
	£m	**£m**	**£m**
At 31 March 2011			
Cost	611.8	483.9	1,095.7
Accumulated depreciation	67.0	225.4	292.4
Net book value at 31 March 2011	544.8	258.5	803.3

The parent company owns no property, plant or equipment.

8. Intangible assets

Group

	Cost	**Amortisation**	**Net book value**
Current year	**£m**	**£m**	**£m**
At 1 April 2011	**129.6**	**(64.2)**	**65.4**
Additions/(charge for the year)	**12.6**	**(11.4)**	**1.2**
At 31 March 2012	**142.2**	**(75.6)**	**66.6**

	Cost	**Amortisation**	**Net book value**
Prior year	**£m**	**£m**	**£m**
At 1 April 2010	116.6	(56.5)	60.1
Additions/(charge for the year)	13.0	(7.7)	5.3
At 31 March 2011	129.6	(64.2)	65.4

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £12.9m in respect of assets in the course of construction (2011: £3.6m). The net book value of intangible assets includes £0.9m of borrowing costs capitalised in acordance with IAS 23 (2011: £0.4m), of which £0.5m were additions in the year (2011: £0.4m).

The parent company owns no intangible assets.

9. Investments

(a) Group

	2012	2011
	£m	£m
Cost and net book value		
At 1 April and 31 March	-	-

Equity of less than 10% is held in the following unlisted company:

	Principal activities	Country of incorporation	Holding
Water Research Centre (1989) plc	Water research	England and Wales	'B' Ordinary Shares of £1

In addition, the group holds 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc.

(b) Parent Company

The company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and has indirect investments in the following subsidiary undertakings:

	Principal activities	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance plc	Dormant	England and Wales	100%

10. Trade and other receivables

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
(a) Current				
Trade receivables	**487.7**	463.1	**-**	-
Provision for impairment of receivables	**(54.6)**	(48.1)	**-**	-
Trade receivables - net	**433.1**	415.0	**-**	-
Prepayments and accrued income	**66.3**	63.3	**-**	-
Corporation tax	**3.8**	2.5	**-**	-
Other receivables	**8.7**	8.5	**-**	-
	511.9	489.3	**-**	-
(b) Non-current				
Amounts receivable from group undertakings	**-**	-	**3.4**	3.4
	-	-	**3.4**	3.4
Total trade and other receivables	**511.9**	489.3	**3.4**	3.4

All non-current receivables are due within five years from the balance sheet date.

As at 31 March 2012, based on a review of historical collection rates it was considered that £54.6m of trade receivables were impaired and these have therefore been provided for (2011: £48.1m). The impaired receivables relate mainly to measured and unmeasured water supply receivables.

Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows:

Current year **Trade receivables**	**Total** **£m**	**Provided for** **£m**	**Net** **£m**
Billed in advance	**389.3**	**-**	**389.3**
Under one month	**15.9**	**(3.5)**	**12.4**
Between one and six months	**26.9**	**(11.5)**	**15.4**
Between six months and one year	**19.5**	**(7.5)**	**12.0**
Between one and two years	**20.8**	**(17.2)**	**3.6**
Between two and three years	**13.8**	**(13.4)**	**0.4**
Over three years	**1.5**	**(1.5)**	**-**
	487.7	**(54.6)**	**433.1**

Prior year **Trade receivables**	**Total** **£m** **As restated**	**Provided for** **£m**	**Net** **£m** **As restated**
Billed in advance (restated)	377.0	-	377.0
Under one month	14.6	(3.1)	11.5
Between one and six months	22.1	(10.5)	11.6
Between six months and one year	19.9	(9.1)	10.8
Between one and two years	18.1	(14.6)	3.5
Between two and three years	11.1	(10.5)	0.6
Over three years	0.3	(0.3)	-
	463.1	(48.1)	415.0

The maximum exposure to credit risks at the reporting date is the carrying value of each class of receivable montioned above. The group does not hold any collateral as security.

Movements in the provision for impairment of trade receivables are as follows:

	2012 **£m**	2011 £m
At 1 April	**48.1**	44.2
Charge to Income Statement	**26.2**	21.5
Receivables written off during the year as uncollectable	**(19.7)**	(17.6)
At 31 March	**54.6**	48.1

The creation and release of provision for impaired receivables have been included in operational expenditure.

The other classes within trade and other receivables do not contain impaired assets. All trade and other receivables are denominated in sterling.

During the year the group has written off £19.7m of debt which had been provided for in full (2011: £17.6m).

11. Cash and cash equivalents

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash at bank and in hand	**(15.9)**	(21.4)	**0.1**	0.1
Short-term deposits	**316.4**	119.7	**-**	-
	300.5	98.3	**0.1**	0.1

The effective interest rate on short-term deposits as at 31 March 2012 was 0.7% (2011: 0.6%) and these deposits had an average maturity of 31 days (2011: 3 days). All cash and cash equivalents are held in sterling.

12. Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
Current	**£m**	£m	**£m**	£m
Trade payables	**47.7**	34.4	**-**	-
Capital payables	**27.2**	31.3	**-**	-
Amounts due to group undertakings	**-**	-	**3.5**	3.5
Taxation and social security	**2.8**	2.4	**-**	-
Accruals and deferred income	**456.5**	438.6	**-**	-
	534.2	506.7	**3.5**	3.5

	Group		Company	
	2012	2011	**2012**	2011
Non-current	**£m**	£m	**£m**	£m
Deferred income	**57.3**	33.1	**-**	-

13. Financial liabilities – borrowings

	Group	
	2012	2011
Current	**£m**	£m
Interest accruals	**51.5**	5.6
Bonds	**0.0**	0.0
Unamortised bond premium	**0.6**	0.6
Unamortised bond issue costs	**(0.3)**	(0.3)
European Investment Bank loans	**13.5**	13.5
Local authority loans	**0.4**	0.3
Finance lease obligations	**11.8**	7.2
	77.5	26.9

Non-current	Group 2012 £m	2011 £m
Interest accruals	**40.7**	40.0
Bonds	**1,899.3**	1,718.1
Unamortised bond premium	**9.0**	10.6
Unamortised bond issue costs	**(5.9)**	(5.5)
KfW Bank loan	**35.0**	35.0
European Investment Bank loans	**211.0**	199.5
Local authority loans	**1.2**	1.6
Finance lease obligations	**722.3**	734.6
	2,912.6	2,733.9

The parent company has no borrowings.

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and

ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The group's Class A Bonds of £950.5m (2011: £922.1m) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to B3 and BBB+ by Moody's and S&P respectively, and is no longer rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the MBIA guarantee, and is the same as the credit ratings of the group's Class B bonds of £949.0m (2011: £796.0m).

14. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges under IAS 39 and movements in their fair value are taken to the Income Statement (see note 5b). The fair values of all derivative financial instruments held by the group are the result of mark-to-market pricing by the issuing counterparties and as such fall within level 2 of the fair value hierarchy set out in IFRS 7.

Group - 2012	**Fair values**	
	Assets	**Liabilities**
	£m	**£m**
Current		
Index-linked swaps	**4.4**	**(16.3)**
Interest rate swaps	**-**	**(8.7)**
	4.4	**(25.0)**
Non-current		
Index-linked swaps	**-**	**(206.3)**
Interest rate swaps	**-**	**(71.1)**
	-	**(277.4)**
Total	**4.4**	**(302.4)**

Group - 2011	**Fair values**	
	Assets	**Liabilities**
	£m	**£m**
Current		
Index-linked swaps	4.4	(35.7)
Interest rate swaps	-	(8.9)
	4.4	(44.6)
Non-current		
Index-linked swaps	2.6	(87.3)
Interest rate swaps	-	(35.6)
	2.6	(122.9)
Total	7.0	(167.5)

In accordance with IAS 39, 'Financial instruments: Recognition and Measurement', the group has reviewed all contracts for embedded derivatives that are required to be accounted for separately if they do not meet certain requirements set out in the standard. The group has no such embedded derivatives as per IAS 39.

The parent company has no derivative financial instruments or embedded derivatives.

Interest rate swaps

At 31 March 2012 an interest rate swap fixes the interest rate on £192m (2011: £192m) of floating liabilities held by the group. The maturity date of the swap is 31 March 2031 and the quarterly LIBOR fixed interest rate is 5.67%. In addition, £50m (2011: £52m) of finance lease liabilities have been swapped from a floating to a fixed LIBOR rate of 3.57% until March 2017. The notional amount of the swap is £50m (2011: £52m).

£426m (2011: £428m) of finance lease liabilities are converted from 3 month to 12 month floating for a period of one year; the swaps expire on 31 March 2013. These swaps are matched against the same liabilities as £426m (2011: £428m) of the finance lease index-linked swaps noted below.

Index-linked swaps

Finance lease swaps
The index-linked swaps have the effect of index-linking the interest rate on £549m (2011: £553m) of finance lease liabilities by reference to the Retail Prices Index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2012 is £528m (2011: £530m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2012. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms are as follows:

Notional amount	£528m amortising (2011: £530m amortising)
Average swap maturity	24 years (2011: 25 years)
Average interest rate	1.59% fixed plus RPI (2011: 1.59% fixed plus RPI)

On 31 March 2011, the group repaid two leases which were index-linked through inflation swaps with a nominal value of £99m. These inflation swaps, which have a notional value of £94m (2011: £99m) amortising over their 10 year life, have been reallocated to index-link an equivalent amount of European Investment Bank debt.

Bond swap
The index-linked swaps have the effect of index-linking the interest rate on £100m of fixed rate bonds by reference to the RPI.

The principal terms are as follows:

Indexed notional amount	£120m (2011: £114.7m)
Swap maturity	45 years (2011: 46 years)
Interest rate	1.35% indexed by RPI (2011: 1.35% indexed by RPI)

15. Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 28. The numerical financial instrument disclosures as required by IFRS 7 are set out below.

a) Interest rate risk

The effective interest rates at the balance sheet dates were as follows:

	2012	2011
Assets:		
Cash and cash equivalents	**0.7%**	0.6%
Liabilities:		
Bonds	**5.0%**	5.2%
European Investment Bank loans	**1.3%**	1.2%
KfW loan	**1.7%**	2.6%
Local authority loans	**5.1%**	5.1%
Finance lease obligations	**2.0%**	1.3%

Trade and other receivables and payables are non interest-bearing.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 14. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - 2012	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**300.5**	**-**	**-**	**-**	**300.5**
Trade and other receivables	**511.9**	**-**	**-**	**-**	**511.9**
	812.4	**-**	**-**	**-**	**812.4**
Liabilities:					
Bonds	**0.6**	**0.7**	**1.8**	**1,905.8**	**1,908.9**
KfW Bank loan	**-**	**-**	**35.0**	**-**	**35.0**
European Investment Bank loans	**13.5**	**13.5**	**47.9**	**149.6**	**224.5**
Local authority loans	**0.4**	**0.3**	**0.5**	**0.4**	**1.6**
Finance lease obligations	**11.8**	**16.0**	**118.5**	**587.8**	**734.1**
Trade and other payables	**534.2**	**1.8**	**4.7**	**50.8**	**591.5**
	560.5	**32.3**	**208.4**	**2,694.4**	**3,495.6**

Group - 2011	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	98.3	-	-	-	98.3
Trade and other receivables	489.3	-	-	-	489.3
	587.6	-	-	-	587.6
Liabilities:					
Bonds	0.6	0.6	1.9	1,762.2	1,729.3
KfW Bank loan	-	-	23.3	11.7	35.0
European Investment Bank loans	13.5	13.5	41.0	145.0	213.0
Local authority loans	0.3	0.3	0.7	0.6	1.9
Finance lease obligations	7.2	11.5	77.2	645.9	741.8
Trade and other payables	506.7	1.2	3.2	28.7	539.8
	528.3	27.1	147.3	2,558.1	3,260.8

The minimum lease payments under finance leases fall due as follows:

	2012 £m	2011 £m
Gross finance lease liabilities		
Within one year	**26.7**	19.5
Between two and five years	**192.0**	191.2
After five years	**719.8**	947.3
	938.5	1,158.0
Future interest	**(204.4)**	(416.2)
Net finance lease liabilities	**734.1**	741.8
Net finance lease liabilities are repayable as follows:		
Within one year (note 13)	**11.8**	7.2
Between two and five years	**134.5**	88.7
After five years	**587.8**	645.9
Total over one year (note 13)	**722.3**	734.6

c) Fair values

The fair values of the group's derivative financial instruments are set out in note 14. The following table summarises the fair value and book value of the group's bonds.

	2012		2011	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds (note 13)	**1,908.9**	**2,268.9**	1,729.3	1,959.1

The fair values of all other financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2012, the group had available undrawn committed borrowing facilities of £215m expiring as set out below, in respect of which all conditions precedent had been met (2011: £200m).

	2012 £m	2011 £m
Expiring in less than 1 year:		
- revolving credit facilities	**-**	100
- term loan facility	**75**	-
	75	100
Expiring in more than 1 year:		
- revolving credit facilities	**140**	-
- term loan facility	**-**	100
	140	100
	215	200

Dŵr Cymru Cyfyngedig also has a £10m overdraft facility renewable on an annual basis.

The company has £140 million of revolving credit facilities, of which £50 million is available to be drawn until May 2016 and £90 million is available until May 2017.

At 31 March 2012, Dŵr Cymru (Financing) Limited ("Financing") also had a special liquidity facility of £135m (2011: £150m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

All of the above facilities are at floating rates of interest.

e) Capital risk management

Gearing ratios

	2012	2011
	£m	£m
Total borrowings	**(2,990)**	(2,760)
Less: cash and cash equivalents	**301**	98
Net debt	**(2,690)**	(2,662)
Regulatory capital value (RCV)	**4,171**	3,980
Total capital ('Financial Reserves')	**1,482**	1,318
Less: unamortised bond costs	**(6)**	(6)
Total capital per bond covenants	**1,476**	1,312
Gearing ratio	**65%**	67%

As set out on page 30, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

16. Provisions

Group	**Restructuring provision**	**Dilapidations provision**	**Uninsured loss provision**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 April 2011	14.7	2.0	6.8	23.5
Charged to income statement	-	0.1	3.6	3.7
Utilised in year	(4.2)	(0.1)	(2.5)	(6.8)
At 31 March 2012	**10.5**	**2.0**	**7.9**	**20.4**
Split as:				
Amounts to be utilised within one year	10.5	-	2.0	12.5
Amounts to be utilised after more than one year	-	2.0	5.9	7.9
At 31 March 2012	**10.5**	**2.0**	**7.9**	**20.4**
Amounts to be utilised within one year	14.7	0.1	2.0	16.8
Amounts to be utilised after more than one year	-	1.9	4.7	6.6
At 31 March 2011	14.7	2.0	6.7	23.4

The parent company has no provisions at 31 March 2012 (2011: £nil).

Restructuring provision
This provides for the costs of terminating the outsourced contracts with United Utilities Operational Services and Kelda Water Services in the year to 31 March 2011 along with the estimated restructuring costs associated with a reduction in the headcount by some 300.

Dilapidations provision
This provision relates to estimated dilapidation costs, which will be incurred over the next five years.

Uninsured loss provision
This provision is in respect of uninsured losses and instances where insurance does not cover a deductible amount. The utilisation period of these liabilities is uncertain due to the nature of claims, but is estimated to be within five years.

17. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group	
	2012	2011
	£m	£m
Operating profit	**191.4**	227.5
Adjustments for:		
- Depreciation and amortisation	**150.0**	144.6
- Changes in working capital:		
Increase in trade and other receivables	**(22.6)**	(4.9)
Increase in trade and other payables	**30.2**	30.1
Pension contributions in excess of operating costs	**(10.6)**	(6.5)
Decrease in provisions	**(0.9)**	(2.6)
	(3.9)	16.1
Cash generated from operations	**337.5**	388.2

b) Interest paid

	Group	
	2012	2011
	£m	£m
Interest payable per income statement	**189.7**	173.5
Less non-cash items:		
- Indexation on index-linked bonds	**(52.1)**	(48.2)
- Amortisation of bond issue costs	**(0.4)**	(0.4)
- Interest (charge)/credit on pension scheme liabilities	**(0.1)**	0.7
- Amortisation of bond issue premium	**0.6**	0.6
- Effect of capitalisation under IAS 23	**6.7**	5.4
- Accounting profit on lease termination	**-**	13.5
- Increase in accruals	**(46.4)**	(1.4)
	(91.7)	(29.8)
Interest paid	**98.0**	143.7

18. Analysis and reconciliation of net debt

a) Net debt at the balance sheet date may be analysed as:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash and cash equivalents	**300.5**	98.3	**0.1**	0.1
Debt due after one year	**(2,149.6)**	(1,959.3)	**-**	-
Debt due within one year	**(14.2)**	(14.1)	**-**	-
Finance leases	**(734.1)**	(741.8)	**-**	-
Accrued interest	**(92.2)**	(45.6)	**-**	-
	(2,990.1)	(2,760.8)	**-**	-
Net (debt)/cash	**(2,689.6)**	(2,662.5)	**0.1**	0.1

b) The movement in net debt during the year may be summarised as:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Net (debt)/cash at start of year	**(2,662.5)**	(2,663.3)	**0.1**	0.1
Movement in net cash	**202.2**	(150.4)	**-**	-
Movement in debt	**(131.6)**	187.4	**-**	-
Movement in net debt arising from cash flows	**70.6**	37.0	**-**	-
Movement in accrued interest	**(46.4)**	(1.7)	**-**	-
Indexation of index-linked debt	**(52.1)**	(48.2)	**-**	-
Profit on lease termination	**-**	13.5	**-**	-
Other non-cash movements	**0.8**	0.2	**-**	-
Movement in net debt during the year	**(27.1)**	0.8		-
Net (debt)/cash at end of year	**(2,689.6)**	(2,662.5)	**0.1**	0.1

19. Employees and directors

Staff costs for the group during the year

	2012	2011
	£m	£m
Wages and salaries	**67.1**	57.5
Social security costs	**5.4**	4.5
Other pension costs	**7.0**	10.0
	79.5	72.0

Of the above, £21.4m (2011: £22.3m) has been capitalised.

Average monthly number of people employed by the group (including directors)	2012 Number	2011 Number
Regulated water and sewerage activities	**1,931**	1,727

20. Pension commitments

The group operates a funded defined benefit pension scheme for current employees (based on final pensionable salary and pensionable service), the DCWW Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund.

The DCWW Pension Scheme was closed to new members from 31 December 2005 and a new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

On 20 October 2010, a bulk transfer of assets with a value of £26m was made into the DCWW Pension Scheme from the KWS Pension Scheme, being the accrued benefits of 192 ex-Kelda Water Services employees who elected to transfer their past service benefits. On 8 December 2010, £129m of assets were transferred into the DCWW scheme from United Utilities pension schemes (UUPS and ESPS schemes - £123m and 6m respectively), being the accrued benefits of 652 ex-United Utilities Operational Services employees who elected to transfer their past service benefits.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2011 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2012 and the principal assumptions made by the actuaries were:

	2012	2011
Discount rate	**5.0%**	5.5%
Inflation assumption	**3.2%**	3.3%
Rate of increase in pensionable salaries	**3.7%**	4.3%
Rate of increase in pensions in payment	**3.1%**	3.1%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**87.7 years**	87.0 years
- Current pensioners aged 65 - females	**90.4 years**	89.9 years
- Future pensioners aged 65 (currently aged 45) - males	**90.7 years**	88.1 years
- Future pensioners aged 65 (currently aged 45) - females	**93.3 years**	90.9 years

Post retirement mortality assumptions are based on those in published actuarial tables "PA92", relevant to members' year of birth with medium cohort adjustments.

Notes to the financial statements

The major categories of plan assets, as a percentage of total assets and the expected long-term rates of return thereon, were as follows:

	2012 Expected return	**2012** % of total assets	2011 Expected return	2011 % of total assets
Equities	**6.5%**	**50.8%**	7.5%	55.2%
Bonds	**5.0%**	**13.0%**	5.0%	12.6%
Other	**3.0%**	**36.1%**	3.0%	32.2%

The amounts recognised in the Income Statement are as follows:

	2012 **£m**	2011 £m
Current service cost (excluding member contributions)	**8.9**	8.6
Past service cost	**1.5**	4.9
Total included within staff costs	**10.4**	13.5
Utilisation of restructuring provision	**(2.1)**	(4.9)
Total included within staff costs	**8.3**	8.6
Interest cost	**13.3**	7.9
Expected return on plan assets	**(13.2)**	(8.7)
Total included within interest payable and similar charges	**0.1**	(0.8)
Total recognised in the Income Statement	**8.4**	7.8

Note that the defined contribution scheme charge of £0.4m (2011: £0.4m) has also been included within staff costs.

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2012 **£m**	2011 £m
Actuarial loss on plan assets	**(9.5)**	(8.2)
Actuarial gain/(loss) on defined benefit obligation	**(16.3)**	3.5
Total recognised in the Statement of Comprehensive Income	**(25.8)**	(4.7)

The total amount recognised in the Balance Sheet is made up as follows:

	2012 **£m**	2011 £m
Present value of funded obligations	**(272.8)**	(238.6)
Plus unrecognised prior service costs	**0.1**	0.2
Fair value of plan assets	**240.8**	222.9
Net liability recognised in the Balance Sheet	**(31.9)**	(15.5)

Changes in the present value of the defined benefit obligation are as follows:

	2012 £m	2011 £m
At 1 April	**238.6**	55.2
Current service cost (including member contributions)	**9.3**	8.9
Past service cost (vested benefits)	**1.4**	4.7
Interest cost	**13.3**	7.9
Benefits paid (net of transfers in)	**(6.1)**	(2.2)
Bulk transfer of liabilities	**-**	167.7
Actuarial loss/(gain)	**16.3**	(3.6)
At 31 March	**272.8**	238.6

Changes in the fair value of plan assets are as follows:

	2012 £m	2011 £m
At 1 April	**222.9**	46.8
Expected return on plan assets	**13.2**	8.7
Contributions (including member contributions)	**20.3**	11.1
Benefits paid (net of transfers in)	**(6.1)**	(2.2)
Bulk transfer of assets	**-**	166.7
Actuarial gain on plan assets	**(9.5)**	(8.2)
At 31 March	**240.7**	222.9

Analysis of the movement in the amount recognised on the balance sheet:

	2012 £m	2011 £m
At 1 April	**15.5**	8.0
Total charge to Income Statement (including utilisation of restructuring provision)	**10.5**	12.7
Total charge to Statement of Comprehensive Income	**25.8**	4.7
Bulk transfer (net liability)	**-**	1.0
Contributions paid (excluding member contributions)	**(19.9)**	(10.9)
At 31 March	**31.9**	15.5

	2012	2011	2010	2009	2008
Experience adjustments arising on scheme assets:					
Amount (£m)	**(9.5)**	(8.2)	10.0	(9.3)	(4.7)
Percentage of scheme assets	**(4%)**	(4%)	21%	(29%)	(12%)
Experience adjustments arising on scheme liabilities:					
Amount (£m)	**(34.6)**	3.6	11.5	(1.1)	8.0
Percentage of the present value of scheme liabilities	**(13%)**	2%	21%	(3%)	22%
Present value of scheme liabilities (£m)	**272.8**	238.4	54.8	40.1	36.8
Fair value of scheme assets (£m)	**240.8**	222.9	46.8	32.3	38.8
(Deficit)/surplus (£m)	**(31.9)**	(15.5)	(8.0)	(7.8)	2.0

The contributions paid in the year to 31 March 2012 include a special contribution of £2.6m (2011: £2.6m). A further £8.0m was paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2011: nil) The contribution expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2013 amounts to £2.6m.

21. Capital and other financial commitments

The group's business plan at 31 March 2012 shows net capital expenditure and infrastructure renewals expenditure of £310m (2011: £273m) during the next financial year. While only a portion of this amount has been formally contracted for, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

22. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group. The parent company has not entered into transactions with any other group company during the year (2011: none).

23. Status of the company

The company is limited by guarantee and does not have any share capital. In the event of the company being wound up, the liability of the members is limited to £1 each.

24. Elan Valley Trust Fund

In 1984 Welsh Water Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7m, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2012 the market value of the trust fund was £110m (2011: £98m).

Interest receivable includes £2.7m (2011 £2.2m) in respect of distributions from the Elan Valley Trust Fund.

25. Contingent liabilities

There were no contingent liabilities other than those arising from in ordinary course of the group's business and on these no material losses are anticipated.